

**Supplemental Reporting Document  
Table of Contents  
October 2007 Investment Committee Meeting  
(August 2007 Reporting Period)**

**Quarterly / Annual Report**

AIM Program

Economically Targeted Investments Program



**Investment Office**  
P.O. Box 2749  
Sacramento, CA 95812-2749  
Telecommunications Device for the Deaf - (916) 795-3240  
(916) 795-3400

October 15, 2007

## **SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Quarterly Performance Report
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Consent
- IV. ANALYSIS:**

### **Background**

In accordance with AIM Program Policy and as provided for in the external resources' contracts, quarterly performance reports are required for the AIM Program. Attachment 1 provides the AIM Portfolio Performance Report as of June 30, 2007. The report may be modified over time to reflect additional enhancements.

### **Program Review**

As of June 30, 2007, the AIM Program had a total exposure of \$38.8 billion. Since inception, the AIM Program has made contributions of \$26.2 billion and received distributions of \$21.0 billion. Of the \$21.0 billion in distributions, \$11.8 billion represents realized gains, income, and dividends. The AIM Program has realized a 1.5x return of contributed capital. Since Inception to June 30, 2007, the AIM Program has generated a net IRR of 14.1%.

**V. STRATEGIC PLAN:**

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

Attachment 1 provides the Executive Summary for the Alternative Investment Management Program - Quarterly Review prepared by the Private Edge group of State Street Corporation and verified by the Performance Monitoring Unit staff.

---

Dana C. Warmenhoven  
Investment Officer  
Performance Monitoring Unit

---

Matt Flynn  
Division Chief

---

Anne Stausboll  
Chief Operating Investment Officer

---

Russell Read  
Chief Investment Officer

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

---

**ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM**

**QUARTERLY REVIEW**

**EXECUTIVE SUMMARY**

*For the quarter ended  
June 30, 2007*

*Prepared by The Private Edge<sup>®</sup> Group, State Street Corporation*



STATE STREET

## TABLE OF CONTENTS

<i>Section</i>	<i>Page</i>
<b>A. AIM PROGRAM - OVERALL PORTFOLIO.....</b>	<b>1</b>
Portfolio Summary .....	1
Performance .....	2
Portfolio Activity .....	2
 <b>B. MARKET OVERVIEW .....</b>	 <b>3</b>
 <b>C. PORTFOLIO OVERVIEW .....</b>	 <b>5</b>
Portfolio Diversification – By Strategy .....	5
Portfolio Geographic Diversification .....	6
Portfolio Company Diversification by Industry .....	7
California Focus .....	8
Commitments and Contributions Since Inception .....	9
 <b>D. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY .....</b>	 <b>10</b>



## **TABLE OF CONTENTS (Continued)**

### **Page**

#### **TABLES**

Table 1 - Summary of AIM Portfolio .....	1
Table 2 - Total Exposure by Portfolio Strategy .....	5
Table 3 - Portfolio Company Diversification by Industry .....	7
Table 4 - California-Based Portfolio Diversification by Industry .....	8
Table 5 - Summary of Capital Commitments and Contributions .....	9

#### **FIGURES**

Figure 1 – AIM Program Cumulative Cash Flows Since Inception .....	2
Figure 2 – AIM Program Cumulative Distributions Since Inception .....	2
Figure 3 – Private Equity Funds Raised .....	3
Figure 4 – Private Equity Dollars Invested.....	4
Figure 5 – AIM Program – Portfolio Diversification by Strategy .....	6
Figure 6 – AIM Program – Portfolio Diversification by Geographic Location.....	6
Figure 7 – Portfolio Company Diversification by Industry .....	7



## I. ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM (AIM)

### A. AIM PROGRAM - OVERALL PORTFOLIO

This quarterly review has been prepared by The Private Edge<sup>®</sup> Group ("PEG") at State Street Corporation and verified by the Performance Monitoring Unit Staff, based on cash flow, valuation and activity data generated by PEG, Grove Street Advisors ("GSA"), and various AIM Program External Resources. Specific highlights of the portfolio are given below.

#### Portfolio Summary

- As of June 30, 2007, the AIM Program had a total exposure of \$38.8 billion. Total exposure is the current reported value of investments plus the remaining amount of unfunded commitments.
- Since inception, the AIM Program has made contributions of \$26.2 billion, received distributions of \$21.0 billion and has a remaining reported value of \$16.9 billion. Of the \$21.0 billion in distributions, \$11.8 billion represents realized gains, income and dividends. During 2004 and 2005, the Program had been self-funding. However, this was not the case in 2006 and in the first half of 2007 due to recent increases in the Program's commitments. During the first half of 2007, the Program's contributions exceeded its distributions by \$0.6 billion.

#### SUMMARY OF AIM PORTFOLIO SINCE INCEPTION (MARCH 1990) THROUGH JUNE 30, 2007 (US\$ IN MILLIONS)

	Capital Contributed <sup>(3)</sup>	Distributions		Reported Value <sup>(5)</sup>	Investment Multiple
		Return of Capital	Realized Gain <sup>(4)</sup>		
<b>Total Active Commitments<sup>(1)</sup></b>	<b>\$24,340.2</b>	<b>\$7,822.0</b>	<b>\$10,283.6</b>	<b>\$16,867.1</b>	<b>1.4x</b>
<b>Total Exited Commitments<sup>(2)</sup></b>	<b>\$1,884.8</b>	<b>\$1,393.9</b>	<b>\$1,472.0</b>	<b>--</b>	<b>1.5x</b>

<sup>(1)</sup> An active commitment refers to an investment that has not reached the end of its legal term.

<sup>(2)</sup> An exited commitment is defined as a commitment that has ended in accordance with the terms of the partnership agreement.

<sup>(3)</sup> Includes fees in excess of committed capital.

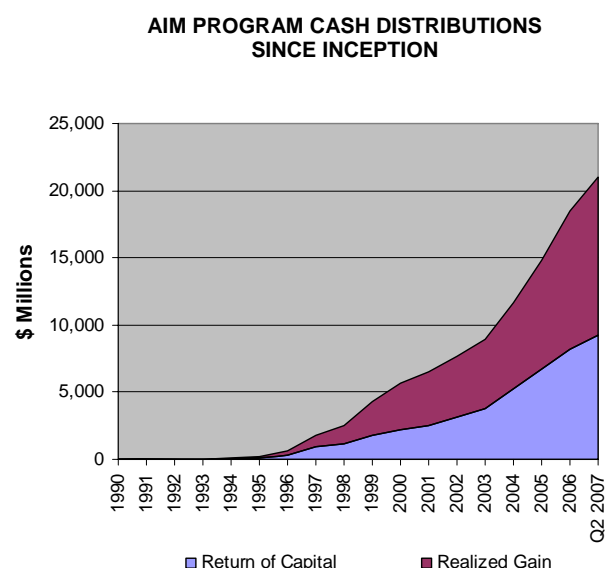
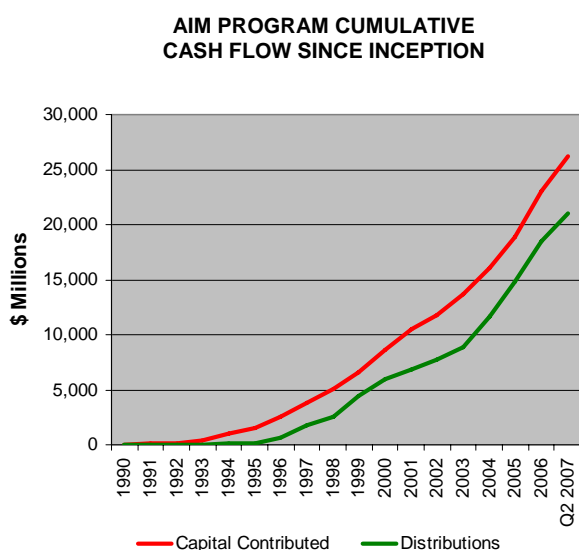
<sup>(4)</sup> Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

<sup>(5)</sup> Based on values reported by the general partners as of June 30, 2007.



## Performance

- Since inception to June 30, 2007, the AIM Program generated a net IRR of 14.1%. At June 30, 2007, the public market ten-year rolling average return for the CalPERS' Custom Wilshire 2500 Index plus 300 basis points was 11.2%.
- As of June 30, 2007, the weighted average age of all of the current investments in the AIM portfolio was 3.6 years. Consequently, a large portion of the portfolio is in the early stage of its investment life, when payment of fees has not been offset by young investments that are held at cost. This is known as the J-Curve effect.
- To address the young age of the partnership portfolio, CalPERS adopted a short-term benchmark, the Venture Economics Custom Young Fund Universe. The benchmark measures performance of the AIM partnerships in the first five years of life against a similarly aged universe of Venture Economics data. As of March 31, 2007, the AIM young fund net internal rate of return ("IRR") was 27.6% which exceeded the estimate of the Custom Young Fund Universe median return of 6.0% by 2,160 basis points. The AIM Program is displaying solid returns for a young portfolio.



## Portfolio Activity

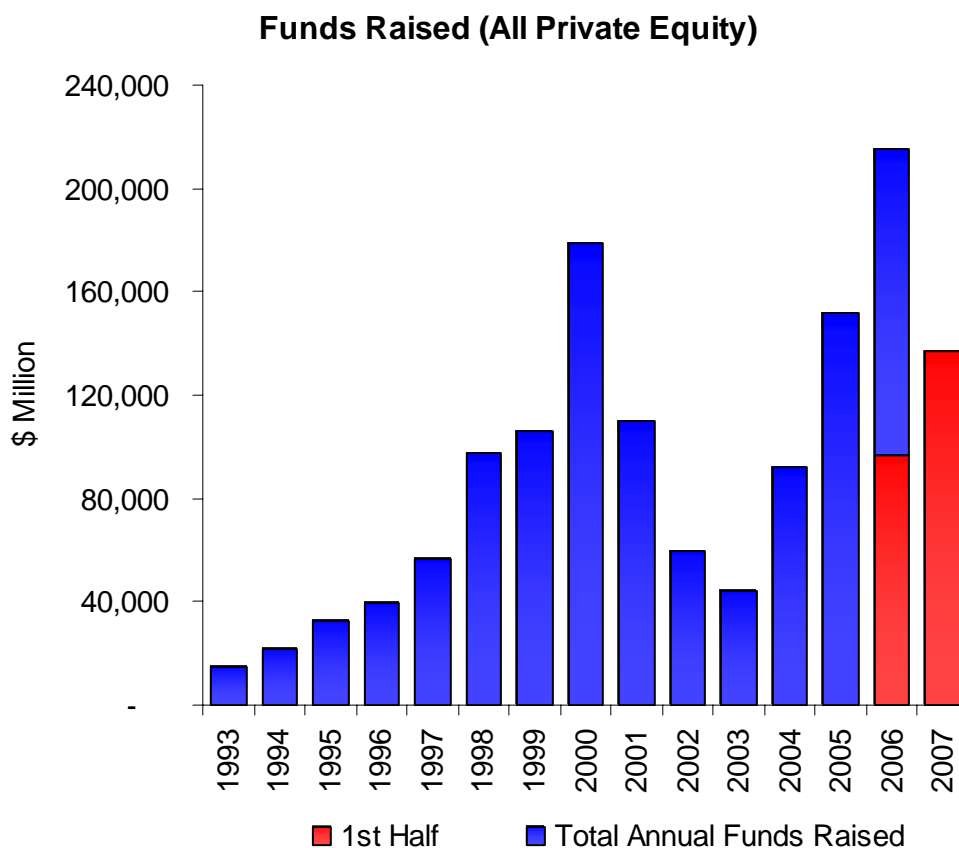
- 18 new commitments were authorized during the second quarter of 2007 for a total of \$5.0 billion.
- During the second quarter of 2007 the AIM Program received 130 proposals for new investment opportunities.
- During the first half of 2007, the AIM Program contributed \$3.1 billion to and received distributions of \$2.5 billion from the underlying portfolio. Of the \$2.5 billion in distributions, \$1.5 billion represents income and realized gains.



## B. MARKET OVERVIEW

### Market

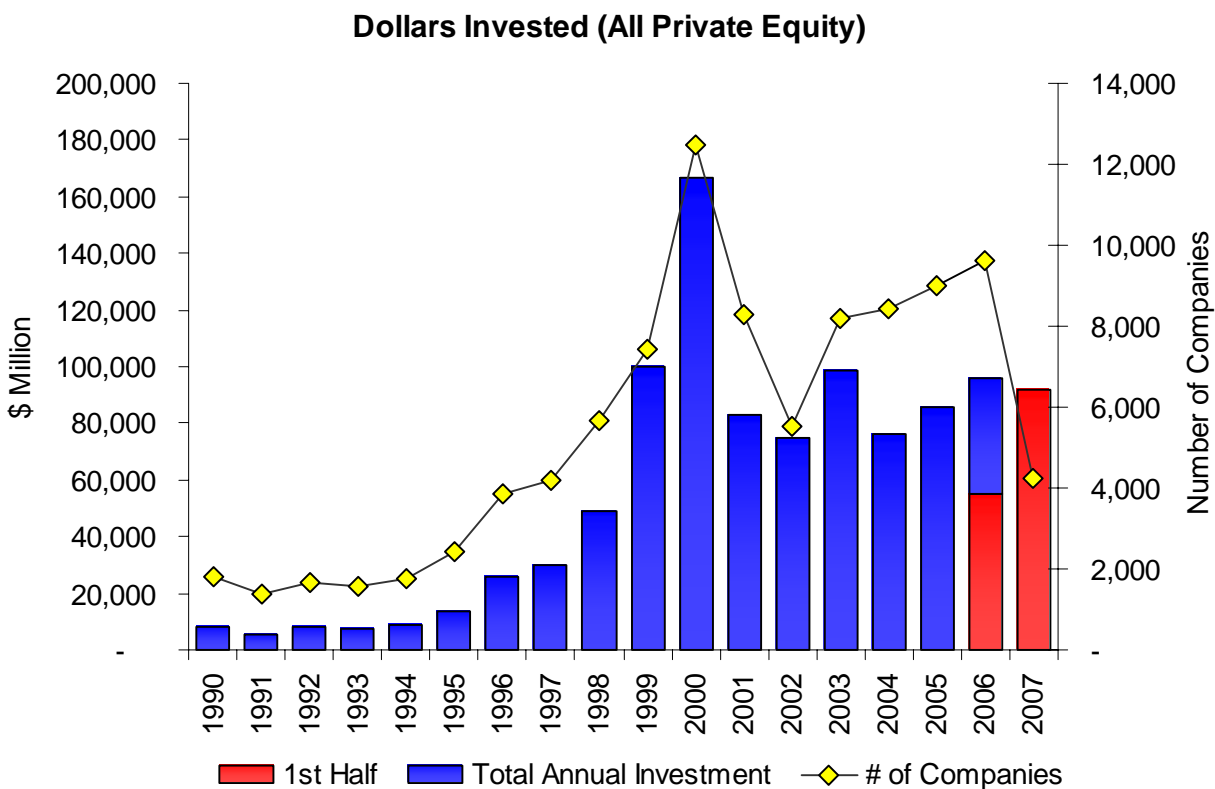
- According to the Private Equity Analyst, \$137.2 billion was committed to 199 funds during the first half of 2007. The commitment pace is up 42% from the first half of 2006 when \$96.4 billion was committed to 147 funds. Venture capital fundraising was down 37% from the first half of 2006 with \$10.0 billion committed in the first half of 2007. Buyout fundraising was up 69% from the first half of 2006 with \$107.6 billion committed in the first half of 2007. The remaining \$19.6 billion raised in the first half of 2007 was committed to Mezzanine Funds, Fund of Funds, Secondary Funds and other Private Equity Funds.



Source: Private Equity Analyst



- Deal activity for all private equity during the first half of 2007 increased in dollar amount but decreased in the number of companies receiving funding compared to the first half of 2006. According to Venture Economics, 4,253 companies received \$91.5 billion in funding in the first half of 2007, compared with 4,965 companies that received \$54.8 billion in the first half of 2006.
- In the first half of 2007, venture capital activity increased in dollar amount but decreased in the number of companies receiving funding compared to the first half of 2006. According to Venture Economics, 3,399 companies received \$28.5 billion in venture funding in the first half of 2007 compared with 4,008 companies that received \$26.6 billion in the first half of 2006. During the first half of 2007, buyout activity increased in dollar amount but decreased in the number of companies that received funding. According to Venture Economics, 1,703 companies received \$67.7 billion in buyout funding in the first half of 2007, compared with 1,937 companies that received \$33.6 billion in first half of 2006.<sup>(6)</sup>



Source: Venture Economics

<sup>(6)</sup> According to Venture Economics, certain investments meet the definitions for both Venture and Buyout categories and are included in the total for each category. For the purposes of determining the Total Private Equity investments for the quarter, these investments are included only once. As such, the sum of Venture and Buyout categories exceeds the Total Private Equity figures for the quarter by the amounts of the investments that meet both Venture and Buyout definitions.



## C. PORTFOLIO OVERVIEW

### Portfolio Diversification – By Strategy

The AIM Program invests in all types of private equity and is well diversified. The total exposure is generally consistent with the diversification within the private equity marketplace. Thus, a majority of AIM Program's total exposure is to Corporate Restructuring, Expansion Capital and Venture Capital.

#### **TOTAL EXPOSURE BY PORTFOLIO STRATEGY (US\$MILLION)**

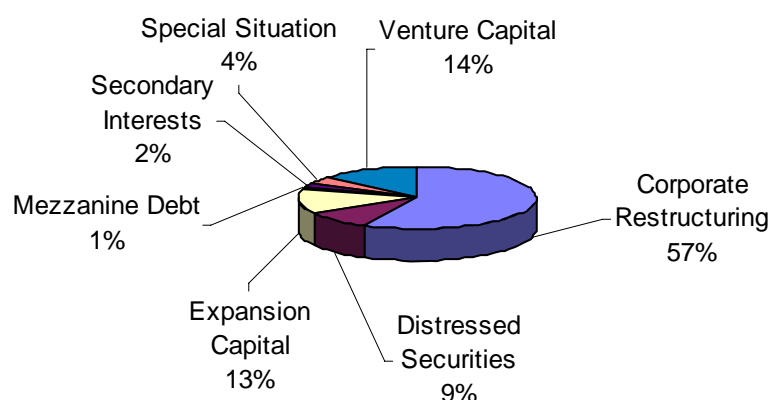
	Unfunded Commitments	Reported Value	Total Exposure	Contributions	Distributions	
					Return of Capital	Realized Gain <sup>(7)</sup>
<b>Corporate Restructuring</b>	\$12,904.9	\$9,279.4	\$22,184.3	\$12,487.9	\$4,304.3	\$6,673.7
<b>Distressed Securities</b>	\$1,905.7	\$1,747.1	\$3,652.8	\$1,983.4	\$450.8	\$454.1
<b>Expansion Capital</b>	\$2,671.5	\$2,168.4	\$4,839.9	\$3,299.5	\$983.1	\$1,006.3
<b>Mezzanine Debt</b>	\$286.6	\$186.4	\$473.0	\$520.2	\$254.9	\$129.3
<b>Secondary Interests</b>	\$553.1	\$315.3	\$868.4	\$809.3	\$676.5	\$163.9
<b>Special Situation</b>	\$972.0	\$389.6	\$1,361.6	\$668.9	\$238.9	\$178.4
<b>Venture Capital</b>	\$2,637.3	\$2,780.9	\$5,418.2	\$4,571.0	\$913.5	\$1,677.9
<b>Total</b>	<b>\$21,931.1</b>	<b>\$16,867.1</b>	<b>\$38,798.2</b>	<b>\$24,340.2</b>	<b>\$7,822.0</b>	<b>\$10,283.6</b>

<sup>(7)</sup> Realized gains include interest, dividends and gains distributed by the general partners.



The below graph depicts the AIM Program's strategy diversification by total exposure.

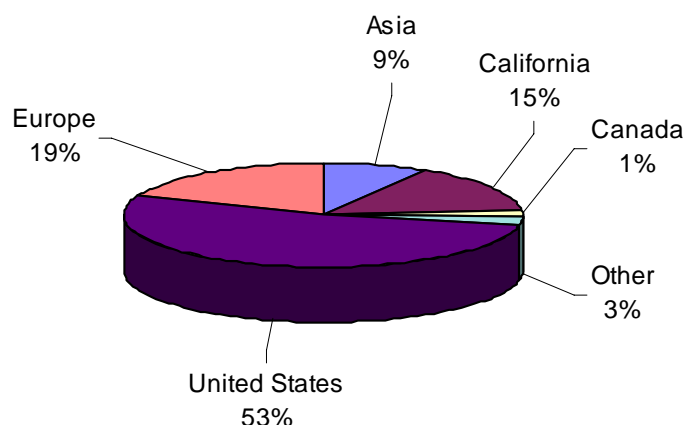
**AIM Program - Portfolio Diversification by Strategy  
As A Percentage of Total Exposure  
As of June 30, 2007**



**Portfolio Geographic Diversification**

As of June 30, 2007, CalPERS' AIM portfolio was well diversified by geographic region. By reported market value, 15% of the investments were in companies with their primary locations within California and 53% of the investments were in non-California domestic areas. International portfolio companies represented 32% of the total reported market value of all portfolio companies.

**Portfolio Diversification by Geographic Location  
As Measured by CalPERS' Reported Value  
As of June 30, 2007**



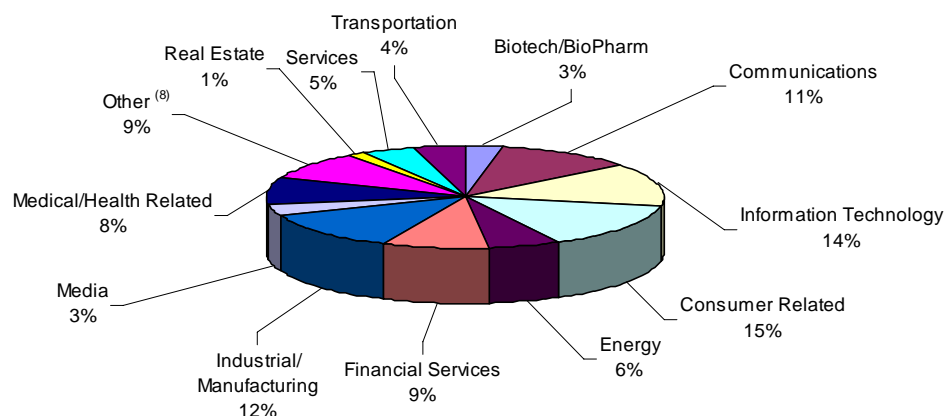
## Portfolio Company Diversification by Industry

As of June 30, 2007, the CalPERS AIM portfolio was broadly diversified by industry. The table below outlines the current reported value of the portfolio companies held in the AIM portfolio. Within the overall portfolio, the largest segments were consumer-related, information technology, and industrial/manufacturing.

### **PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF JUNE 30, 2007**

<b>Industry</b>	<b>Reported Value (US\$ MILLIONS)</b>
Biotechnology/BioPharma	\$ 481.2
Communications	1,726.7
Consumer-Related	2,261.8
Energy	868.6
Financial Services	1,354.1
Industrial/Manufacturing	1,911.6
Information Technology	2,105.6
Media	569.2
Medical/Health-Related	1,324.9
Other <sup>(8)</sup>	1,357.6
Real Estate	207.1
Services	728.3
Transportation	629.0
<b>Total</b>	<b>\$ 15,525.7</b>

### **Portfolio Diversification by Industry As Measured by CalPERS' Reported Value As of June 30, 2007**



<sup>(8)</sup> Includes CalPERS' investments held through fund-of-funds.



## **California Focus**

As of June 30, 2007, the AIM Program had \$12.7 billion in total exposure to funds that were either headquartered or had a major presence in California. The total exposure to funds that focus primarily on investments in California were \$2.2 billion. In addition, many AIM Program partnerships actively make investments in California. Currently, California-based companies represent 15% of the reported market value of the AIM portfolio.

### **CALIFORNIA-BASED PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF JUNE 30, 2007**

<b>Industry</b>	<b>Reported Value (US\$ IN MILLIONS)</b>
Biotechnology/BioPharma	\$ 140.0
Communications	282.3
Information Technology	634.8
Consumer-Related	229.8
Energy	90.6
Financial Services	98.7
Industrial Products/Manufacturing	107.5
Media	71.5
Medical/Health-Related	349.2
Other <sup>(9)</sup>	101.3
Real Estate	49.2
Services	135.6
Transportation	36.6
<b>Total</b>	<b>\$2,327.1</b>

<sup>(9)</sup> Includes CalPERS' investments held through fund-of-funds.

The AIM Program includes a California-oriented component that is designed to take advantage of a number of factors conducive to targeted investment activity within the state: (i) the unique size characteristics of the California economy; (ii) the existence of a "capital gap" for certain business segments within the state; and (iii) the ability to construct a diversified array of investment vehicles that reflects the state's large number of business entities and the wide range of development cycles that they represent.



## **Commitments and Contributions Since Inception**

Since inception to June 30, 2007, CalPERS has contributed capital of \$26.2 billion, including exited investments. As expected, the earlier vintage year partnerships have the highest deployment percentage as it typically takes some time for each partnership to call down the full amount of committed capital. The total capital committed by vintage year is presented in the table below.

### **SUMMARY OF CAPITAL COMMITMENTS AND CONTRIBUTIONS (US\$ IN MILLIONS)**

<i><b>Vintage Year</b></i>	<i><b>Capital Committed</b></i>	<i><b>Capital Contributed</b></i>	<i><b>Reported Value</b></i>	<i><b>Return of Capital</b></i>	<i><b>Realized Gain<sup>(10)</sup></b></i>	<i><b>Investment Multiple</b></i>
<b>1990</b>	\$125.3	\$121.9	\$0.5	\$119.5	\$175.9	2.4
<b>1991</b>	171.7	179.6	0.3	150.5	358.8	2.8
<b>1992</b>	160.0	156.6	2.6	109.0	230.9	2.2
<b>1993</b>	563.0	560.0	37.6	453.8	584.1	1.9
<b>1994</b>	1,507.6	1,416.9	110.2	923.1	1,403.0	1.7
<b>1995</b>	1,197.9	1,141.3	115.4	723.9	1,070.7	1.7
<b>1996</b>	1,155.9	1,133.7	86.4	640.5	805.1	1.4
<b>1997</b>	1,111.9	1,089.5	257.0	522.7	819.3	1.5
<b>1998</b>	2,216.7	2,172.0	673.1	1,175.3	1,190.8	1.4
<b>1999</b>	1,207.1	1,147.4	427.1	478.9	626.3	1.3
<b>2000</b>	3,977.8	3,597.7	2,265.6	1,343.0	1,322.4	1.4
<b>2001</b>	4,774.8	4,103.9	3,287.3	1,522.5	1,813.6	1.6
<b>2002</b>	1,092.6	944.3	853.9	303.1	355.7	1.6
<b>2003</b>	1,496.2	1,213.1	1,296.2	349.2	579.0	1.8
<b>2004</b>	1,966.7	1,417.8	1,646.7	204.4	207.5	N/M
<b>2005</b>	3,932.0	2,223.7	2,335.1	127.7	167.7	N/M
<b>2006</b>	9,465.1	2,771.4	2,670.1	68.8	44.8	N/M
<b>2007</b>	5,508.3	834.2	802.0	0.0	0.0	N/M
<b>Authorized<sup>(11)</sup></b>	\$7,003.5	-	-	-	-	N/A
<b>Total</b>	<b>\$48,634.1</b>	<b>\$26,225.0</b>	<b>\$16,867.1</b>	<b>\$9,215.9</b>	<b>\$11,755.6</b>	<b>1.4</b>

<sup>(10)</sup> Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

<sup>(11)</sup> These commitments have been authorized subject to satisfactory final due diligence, negotiation of investment terms and conditions and completion of all legal documents, including opinions of counsel regarding the preservation of CalPERS' limited liability status, and no material changes to the investment opportunity.



## **D. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY (AS REPORTED BY THE AIM PROGRAM)**

### **Significant Events**

- None to report for the quarter ended June 30, 2007.

### **Material Exceptions to Policy**

- None to report for the quarter ended June 30, 2007.





**Investment Office**

P.O. Box 2749

Sacramento, CA 95812-2749

Telecommunications Device for the Deaf - (916) 795-3240

(916) 795-3400

October 15, 2007

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Economically Targeted Investments Program Policy
- II. PROGRAMS:** Real Estate, Fixed Income, and Alternative Investments
- III. RECOMMENDATION:** Information only
- III. ANALYSIS:**

Under the CalPERS' Economically Targeted Investments Program Policy, Staff is directed to report annually to the Investment Committee the Fund's investment in underserved areas of California. All told, CalPERS' investments and commitments to underserved areas of California totaled \$4.815 billion, equal to approximately 1.94% of CalPERS' total assets, which is just under our stated goal of 2%. CalPERS continues to work with its partners to find investment opportunities that meet the goals of this policy and provide competitive risk-adjusted rates of return. These investments are summarized in Attachment 1 and are concentrated in the following three asset classes:

**A. Real Estate**

Our Real Estate Program investments in underserved areas of California through the CURE Program, Senior Housing, AFL-CIO Building Investment Trust, Opportunity Funds, and Single Family Housing. This asset class has total commitments and investments of approximately \$2,618 million to underserved areas of California.

**B. Alternative Investments**

The AIM Program participates in underserved areas through the California Initiative Program which has also committed \$1,040 million to 11 partnerships. In addition, the AIM unit participates in underserved areas through other fund commitments. This asset class has total commitments and investments of approximately \$1,885 million to underserved areas of California.

### **C. Fixed Income**

Fixed Income invests in underserved areas of California through the Community Redevelopment Act (CRA), CMO's with CRA Collateral, and the California Community Mortgage Fund. This asset class has total commitments and investments of approximately \$312.5 million to underserved areas of California.

## **IV. STRATEGIC PLAN**

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

## **V. RESULTS/COSTS**

This policy has increased CalPERS' exposure to the underserved and emerging market components of California's economy as well as CalPERS' overall exposure to the California State economy.

---

Christian Cardeno  
Investment Officer

---

Marlene Angeli  
Assistant Division Chief

---

Matt Flynn  
Division Chief

---

Anne Stausboll  
Chief Operating Investment Officer

---

Russell Read  
Chief Investment Officer

# **CalPERS' Economically Targeted Investments Program Policy Attachment 1**

<b><u>Real Estate</u></b>	<b><u>Millions</u></b> <sup>1</sup>
California Urban Real Estate	\$1,483.44
Senior Housing	\$18.95
AFL-CIO Building Trust	\$36.75
Opportunity Funds	\$255.92
National Housing	<u>\$823.02</u>
<b>Total Real Estate</b>	<b>\$2,618.08</b>
 <b><u>Alternative Investments</u></b>	
California Initiative	\$1,040.00
Other Fund Commitments	\$844.84
<b>Total Alternative Investments</b>	<b>\$1,884.84</b>
 <b><u>Fixed Income</u></b>	
Member Home Loan CRA	\$223.10
CMO's with CRA Collateral	\$64.70
CA Community Mortgage Fund	<u>\$24.70</u>
<b>Total Fixed Income</b>	<b>\$312.50</b>
 <b>Grand Total</b>	<b><u><u>\$4,815.42</u></u></b>

<sup>1</sup> Discloses the total of commitments and actual investments